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CONFERENCE FACILITIES FOR THE UNICEF EXECUTIVE BOARD, RECOVERY OF ADMINISTRATIVE COSTS FOR SUPPLEMENTARY-FUNDED PROGRAMMES, A SELF-FINANCING SUPPLY DIVISION AND LOCATION OF UNICEF GREETING CARD AND RELATED OPERATIONS

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the following documents:

(a) Conference facilities at the premises of UNICEF headquarters (E/ICEF/1994/AB/L.15);

(b) Recovery of costs for prorated project posts and incremental field costs for supplementary-funded programmes (E/ICEF/1994/AB/L.2 and Corr.1);

(c) A self-financing Supply Division (E/ICEF/1994/AB/L.9);

(d) Review of that part of the UNICEF Greeting Card and related Operations located in Manhattan (E/ICEF/1994/AB/L.10).

During its consideration of the above-mentioned reports, the Committee met with representatives of UNICEF who provided additional information.

I. CONFERENCE FACILITIES FOR THE EXECUTIVE BOARD AT THE PREMISES OF UNICEF HEADQUARTERS

2. The Advisory Committee notes that the report on the examination of the question of conference facilities at the premises of UNICEF headquarters (E/ICEF/1994/AB/L.15) was prepared in accordance with Executive Board decision 1994/R.1/1 (E/ICEF/1994/13 (Part I)). By its decision, the Executive Board

requested UNICEF to examine the matter further, "including detailed costing for possible options for such facilities, including those shared with the United Nations Development Programme/United Nations Population Fund and in comparison with United Nations facilities".

3. The Committee observes that the preliminary review of the technical feasibility of possible options was conducted by an architectural and design consultant firm employed by UNICEF on a fee basis. The firm studied two options and estimated the cost for the construction of conference facilities: (a) in Labouisse Hall, B1 level, of UNICEF House, and (b) in the future UNICEF premises at the 633 Third Avenue building, at a cost of approximately $542,000 and $770,000, respectively (E/ICEF/1994/AB/L.15, annex).

4. Upon inquiry, the Committee was informed that the related costs for outfitting the conference room had yet to be estimated in detail; they were expected to be quite substantial (at least $300,000, depending on a broad range of choices and qualities). These would include one-time costs for furniture (conference room with some 120 seats to accommodate 36 Board members and observer delegations), communication cabling and audio/video equipment for simultaneous interpretation in the six official languages, architectural design and building department filing fees, etc. Furthermore, the proposal does not address the possible participation of a larger number of other observers and participants invited to follow special-interest items, as well as possible changes in future Executive Board membership. The Committee notes that recurrent costs also would be incurred for such items as maintenance of conference facilities, staff to service meetings and notably interpretation services, as well as for a general-purpose assembly room to replace Labouisse Hall (at a cost of about $150,000), or for securing additional space (approximately 17,000 square feet) at 633 Third Avenue. With regard to interpretation services, the Committee was informed that they would have to be negotiated with the United Nations Secretariat, which has the necessary experience and familiarity with the United Nations terminology, as this type of expertise would be rather difficult to find in the market-place.

5. The Committee also was informed that the conference facilities at the United Nations have continued to be available to UNICEF for its Executive Board sessions, noting that in spite of changes in the number, duration and composition of its governing body and sessions, UNICEF has not experienced, neither now nor in the past, technical or organizational difficulties with regard to obtaining conference services from the United Nations. In this regard, the Advisory Committee recalls that in the statement submitted by the Secretary-General on the programme budget implications for the biennium 1994-1995 of the restructuring and revitalization of the United Nations in the economic, social and related fields (A/C.5/48/54), the Secretary-General indicated his intention to provide the conference-servicing requirements for the Executive Boards of the United Nations Development Programme/United Nations Population Fund (UNDP/UNFPA) and UNICEF:

> "from within the overall provision for conference-servicing requirements under section 25, Administration and management, of the proposed programme budget for the biennium 1994-1995, which has been made not only for meetings already known of at the time of the budget preparation, but also

for meetings and extensions of such a meetings that may be authorized subsequently, based on the pattern that has emerged over the previous five years. On that basis, it is estimated that no additional resources would be required under section 25 of the proposed programme budget for the biennium 1994-1995 for the implementation of the new programme of meetings that would result from the adoption of the draft resolution." (ibid., para. 3)

6. With regard to the possibility of sharing conference facilities with UNDP and UNFPA, the Advisory Committee was informed that there had been no further negotiations in this regard. The Committee notes that sharing conference facilities would result in substantial economies in operating costs. The Advisory Committee recalls that the General Assembly decided that each Executive Board should meet "at the premises of the headquarters of the respective organization as of the date when such premises are rendered possible to accommodate such meetings" (resolution 48/162, annex I, para. 27). The Committee recalls, however, that the Executive Board of UNDP/UNFPA has decided to hold the annual 1994 session at Geneva (decision 94/2).

7. The Advisory Committee recalls that the General Assembly in paragraph 27 of annex I to its resolution 48/162 encouraged "the Executive Boards of the funds and programmes ... to make the necessary facilities available as soon as possible without prejudice to the resources of existing programmes and projects". The Committee notes with concern that apparently there has been no consultation between UNICEF and the Office of Conference and Support Services at the United Nations and points out that no funds are available from existing budgets to finance the proposed construction of conference facilities. The representatives of UNICEF informed the Committee that no funds or contributions-in-kind have been pledged for this purpose so far.

8. The Advisory Committee wishes to point out that expenditure on conference facilities would take place in an environment where income has grown very modestly, while expenditures continue to increase rapidly and the proportion of administrative expenditures to total expenditure remains high. As reported by the Board of Auditors (A/48/5/Add.2, para. 32) for the 1992-1993 biennium, the recurring surpluses of income over expenditure in the past have been eliminated. A deficit of $125 million was incurred as of 31 December 1993 compared with a surplus of $134 million realized at the end of the 1990-1991 biennium. This situation is attributable to a 28 per cent increase in expenditure for the period, while income rose by only 11 per cent.

9. The Advisory Committee was informed that, in practice, the assumptions under which paragraph 27 of annex I to General Assembly resolution 48/162 was adopted have not been borne out, as there are more participants than had originally been envisaged. The Committee believes strongly that, in view of the limited resources available for UNICEF programmes and projects, and taking into account economies of scale, the Executive Board should consider whether its goals could be attained in a cost-effective manner by utilizing the conference-servicing facilities currently available at the United Nations premises for all governing bodies of the United Nations funds and programmes.

10. To this end, the Advisory Committee further invites the Executive Board to request UNICEF to continue its dialogue and negotiations with the United Nations Secretariat to obtain those conference-servicing facilities within the United Nations premises identified by the Executive Board that would meet the specific requirements of the Board. In this connection, the Advisory Committee recalls the decision of the Fifth Committee (A/48/790, para. 3) with regard to the adoption of draft resolution A/48/L.33 (which became resolution A/48/162) that "the question of additional premises that might be required would need to be examined by the Secretary-General and the Executive Heads of the United Nations Development Programme, the United Nations Population Fund and the United Nations Children's Fund and the Secretary-General should report thereon to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions."

II. RECOVERY OF COSTS FOR PRORATED PROJECT POSTS AND INCREMENTAL FIELD COSTS FOR SUPPLEMENTARY-FUNDED PROGRAMMES

11. In documents E/ICEF/1994/AB/L.2 and Corr.1, the Executive Director presents his review of the elements of the structure and adequacy of UNICEF recovery of administrative and programme support charges attributable to supplementary-funded programmes. The report was submitted to the Executive Board in compliance with decision 1992/37 (E/ICEF/1992/14). The Advisory Committee notes that, according to the historical summary of developments presented in the annex, the policy of recovery of administrative and programme support expenditures incurred by UNICEF in managing operations and activities funded from supplementary contributions has gradually evolved in consonance with increases in the ratio of supplementary funds to general resources income.

12. The Advisory Committee observes that the issue of recovering overhead charges and avoiding subsidizing supplementary-funded activities by using general resources to cover their administrative costs has been of concern to the UNICEF governing body. As indicated in paragraph 3 of the report, the Board last addressed this issue in 1992, approving, on an interim basis, the continuation of the application of a recovery charge of 6 per cent on contributions to supplementary-funded programmes for non-emergency purposes.

13. The Board also extended the application of this charge to all other supplementary-funded activities funded from contributions received for emergency purposes. The policy of exempting contributions from National Committees for UNICEF, non-governmental organizations (NGOs) and host Governments funding their own programmes continued, however, to apply. For its consideration in 1994, the Board requested UNICEF to take into account in this review all relevant factors, such as actual overhead charges incurred, the application of the recovery charge to contributions from National Committees and NGOs, the application of recovery of overhead charges in other United Nations agencies and programmes, the use of interest income derived from unexpended balances of supplementary contributions to offset administrative costs and the effects of changes in the recovery policy on the level of contributions received.

14. The Advisory Committee notes from table 1 of the report that contributions to supplementary-funded programmes have increased rapidly in recent years, from

$135 million in 1982 to $357 million in 1993, accounting for about 41 per cent of the total income of $866 million in 1993. Expenditures from these contributions also have increased rapidly, from $60 million in 1982 to $391 million in 1993, or about 48 per cent of the total programme expenditures of $804 million in 1993. As explained in paragraph 4 of the report and paragraph 9 of the annex, since 1990 the nature of these contributions also has changed, and in 1993 about one half of the supplementary contributions were for emergency activities.

15. The Advisory Committee had serious difficulty in analysing the information on the alternative recovery scenarios for 1994-1997, presented in paragraphs 5 and 6 of the report, and in relating it to the tabulations of tables 3 and 4 of E/ICEF/1994/AB/L.2/Corr.1. The basic assumptions for the cost forecast of "headquarters recovery staff" and "field-level incremental general operating costs required for implementation of supplementary-funded programmes" were not included in the report. These should have been explained clearly in the document. Table 4 of E/ICEF/1994/AB/L.2/Corr.1 shows, for example, an increase in "cost of headquarters recovery staff" from $7.3 million in 1993 to $11.4 million in 1994, or a 56.2 per cent increase, while incremental general operating costs in the field offices required for implementation of supplementary-funded programmes increased by just 1.3 per cent. Similarly, the calculation of "current recovery policy of 6 per cent with donor exemptions" of $11.2 million in 1993 is misleading since total supplementary contributions amounted to $357 million, and it appears doubtful that one half of these were received from those contributors exempted by the Board (i.e., National Committees for UNICEF, NGOs and host Governments contributing to their own programmes).

16. The Advisory Committee has pointed out repeatedly that the number of project posts allocated to headquarters is high. The Committee notes that a large number of headquarters posts are being charged to projects (344 of a total 879 headquarters posts).

17. The Advisory Committee has cautioned UNICEF that, unless policy measures are taken to streamline the administrative and programme support functions at headquarters carried out by these staff, "UNICEF will continue to face a disproportionate increase in costs, including serious problems of accommodation at headquarters at the expense of project delivery in the field" (E/ICEF/1993/AB/L.2, para. 54). The Committee has indicated repeatedly that the majority of these posts perform functions of an administrative and programme support nature similar to that carried out by staff charged to the administrative and programme support budget.

18. The Advisory Committee wishes to point out that the views ascribed to it in paragraph 16 of the report do not reflect at all the prior observations of the Committee. The Committee's concern centred on the fact that posts performing support functions at headquarters were identified as project posts and, as a consequence, their support nature was not fully disclosed; this practice distorts the proper disclosure of administrative costs at UNICEF, understating significantly the true costs of delivering its assistance. The solution to this problem is one of categorization and identification and not necessarily to charge project posts at headquarters currently funded from supplementary

resources and global funds to the administrative and programme support budget (funded from general resources); rather posts must be financed by funds related to the activity which they support. The Advisory Committee believes that a further analysis should be requested by the Executive Board so as to enable a determination to be made of which support post costs should be borne by general resources and which by supplementary resources or global funds. This analysis should be included in the UNICEF budget submission for 1996-1997.

III. A SELF-FINANCING SUPPLY DIVISION

19. The Advisory Committee notes the first steps taken by UNICEF to comply with the Committee's recommendation in paragraph 26 of E/ICEF/1993/AB/L.2 to present to the Executive Board a full analysis of the cost structure of supply services at Copenhagen and New York. The Committee notes further that the supply structure of the Supply Division and the split of its operations will be dealt with in the formulation of the budget proposal for administrative and programme support services for 1996-1997. The Committee trusts that in this context a detailed costing of both staff and operating costs of the Supply Division at Copenhagen and New York will be presented, independently of the source of funding. The emphasis of this budget exercise should be in identifying and explaining the functions of Supply Division posts. The various recovery charges and any proposed changes in the schedule of fees for procurement services should be rationalized, identifying clearly the proposed sources of income.

20. The Advisory Committee observes that, as noted in the report (E/ICEF/1994/AB/L.9, annex II, para. 3), "the main function of the Supply Division is to provide the material component of the country programmes supported by UNICEF from general resources and supplementary funds income. These two sources each represent approximately 40 per cent of supply purchases". The remaining 20 per cent of purchasing activity is accounted for by the procurement services of UNICEF as a purchasing agent of Governments, NGOs and other United Nations agencies. Upon inquiry, the Committee was informed that on occasion the Supply Division also provides procurement services free of charge to internationally recruited staff of UNICEF who have been assigned to field offices where there are special difficulties in obtaining certain items.

21. The Advisory Committee observes that the Executive Director proposes a common service fee structure to all UNICEF "customers" (i.e, UNICEF-assisted programmes as "internal customers" and to Governments, NGOs and other United Nations bodies as "external customers"). On the basis of this proposal, all administrative and programme support expenditures of the Supply Division at Copenhagen and New York would be covered from the income derived by charging service fees to customers. All income generated by the Supply Division would be credited to the Supply Division account and any excess of income over expenditure in the administration of the Division would be credited to the miscellaneous income account.

22. As the Advisory Committee has pointed out, the present mechanism for budgeting the costs of the Supply Division lacks transparency and does not reveal the true costs of the operation. The proposals contained in the report represent the first step towards addressing the concerns expressed previously by

the Committee, and the Committee supports them in principle. However, there are certain elements that need further elaboration, such as the criteria for the establishment of fees and the treatment of internal versus external customers, including possible service charges to staff. Moreover, additional information and clarification are required on the use of surplus income. Accordingly, the Committee recommends a follow-up which would address the issues in the context of the UNICEF 1996-1997 budget proposals.

IV. REVIEW OF THAT PART OF THE UNICEF GREETING CARD AND RELATED OPERATIONS LOCATED IN MANHATTAN

23. In document E/ICEF/1994/AB/L.10, the Executive Director presents his review of that part of the Greeting Card and related Operations (GCO) located in Manhattan as requested by the Executive Board in its decision 1993/26 (E/ICEF/1993/17). The review had as its objective to ensure the most efficient and cost-effective operation and to examine the possibility of consolidating the staff currently located in New York and in Geneva at a single location.

24. The Advisory Committee notes that the review covers three options: (a) maintaining the current staffing levels in New York and Geneva as approved by the Executive Board in its decision 1994/A/9 (E/ICEF/1994/13 (Part III)); (b) consolidating the staff now based in New York and Geneva in New York; and (c) consolidating those staff members in Manhattan and Geneva in Geneva. However, the Committee points out that the Board's request was limited to the study of the operational efficiency and cost-effectiveness of only the operations located in Manhattan, including their location, with no reference to consolidation of activities in Geneva.

25. The Advisory Committee notes that, as stated in paragraph 4 of the report, the GCO headquarters staff is divided between two locations, New York and Geneva. In New York there are 96 posts (43 Professional and 53 General Service), of which 89 are located in Manhattan (41 Professional and 48 General Service) and 7 at the distribution centre outside Manhattan (2 Professional and 5 General Service). In Geneva there are 80 posts (36 Professional and 44 General Service). In addition, 9 posts are located at the European warehouse and distribution centre.

26. For the reasons stated in paragraph 9 of the report, consolidation of the staff in New York would result in annual savings of $4 million, to be offset by one-time relocation costs for the staff whose posts would be redeployed and termination indemnity costs for the staff in abolished posts, amounting to $1.6 million (annex II). The Advisory Committee was informed that there also would be a one-time cost for the termination indemnity of 44 General Service staff in Geneva, estimated at $2.6 million (annex III). With regard to the consolidation of staff in Geneva, the Committee notes that, as stated in paragraph 11 of the report, annual expenses would increase by approximately $900,000 (annex I) and there would be a one-time relocation cost of approximately $1.7 million for the relocation of redeployed staff and termination indemnity for staff in abolished posts (annex II). In addition, the Committee was informed that the one-time termination costs of 48 General Service staff in New York would amount to about $1.9 million (annex III).

27. From the information provided in the report and by representatives of the Executive Director, the Committee is not convinced that all the various alternatives for the relocation of the GCO staff in the New York area have been explored sufficiently. The Advisory Committee therefore recommends that consideration of this issue by the Executive Board be deferred until the management review study of UNICEF operations is completed.